Hlabisa Local Municipality
Annual Financial Statements
for the year ended 30 June 2010

General Information

Mayoral committee	
Mayor	Councilor B. Ntombela
Deputy Mayor	Councilor V.M. Gumede
Speaker	Councilor Z.E. Nyawo
Members of Executive Committee	Councilor M.A. Ntombela
	Councilor M.W. Khumalo
	Councilor G.R. Mchunu
	Councilor H.T. Nkosi
	Councilor H.G. Mavimbela
Grading of local authority	2
Municipal Manager	T. V. Mkhize
Chief Finance Officer (CFO)	B.M. Thusi
Registered office	Municipal Building 4/62 Masson Street Hlabisa 3937
Business address	Municipal Building 4/62 Masson Street Hlabisa 3937
Postal address	PO Box 387 Hlabisa 3937
Telephone number	035 838 8500
Fax number	035 338 8500
Bankers	ABSA - Public Sector Newcastle FNB Bank Limited - Mtubatuba
Auditors	Auditor-General

Index

The reports and statements set out below comprise the annual financial statements presented to the Council:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The Accounting Officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Accounting Officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Accounting Officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the Accounting Officer to meet these responsibilities, the municipality sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The Accounting Officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2010 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 5 to 44, which have been prepared on the going concern basis, were approved by the Council on 31 August 2010 and were signed on its behalf by:

T.V. Mkhize
Municipal Manager

PRACTICE LOGO

Report of the Auditor General

Accounting Officer's Report

The Accounting Officer submits his report for the year ended 30 June 2010.

Statement of Financial Position

Figures in Rand	Note(s)	2010	2009
Assets			
Current Assets			
Inventories	6	19,217	-
Trade and other receivables	7	1,120,350	666,980
VAT receivable	8	1,545,855	860,582
Consumer debtors	9	988,868	576,171
Cash and cash equivalents	10	2,679,472	146,374
		6,353,762	**2,250,107**
Non-Current Assets			
Property, plant and equipment	4	59,291,464	36,740,140
Intangible assets	5	19,075	26,608
Investments		2,941,789	5,093,252
Deposits		14,200	14,200
		62,266,528	**41,874,200**
Total Assets		**68,620,290**	**44,124,307**
Liabilities			
Current Liabilities			
Finance lease obligation	11	133,636	104,412
Trade and other payables	13	5,886,783	2,660,470
Unspent grants and receipts	12	5,008,838	5,148,400
Bank overdraft	10	-	925,761
		11,029,257	**8,839,043**
Non-Current Liabilities			
Finance lease obligation	11	217,595	351,230
Total Liabilities		**11,246,852**	**9,190,273**
Net Assets		**57,373,438**	**34,934,034**
Net Assets			
Accumulated Surplus		57,373,438	34,934,034

Statement of Financial Performance

Figures in Rand	Note(s)	2010	2009
Revenue			
Property rates	15	466,652	102,157
Service charges	16	1,051,973	13,636
Property rates - penalties imposed and collection charges		88,600	102,338
Public contributions and donations		-	25,698
Fines		8,063,088	2,917,384
Licences and permits		301,283	673,954
Government grants & subsidies	17	56,633,071	39,252,797
Rental income		165,893	229,486
Sundry income		1,147,770	186,074
Interest received - investment	22	373,021	1,050,717
Total Revenue		**68,291,351**	**44,554,241**
Expenditure			
Employee related costs	20	(11,981,586)	(9,349,619)
Remuneration of councillors	21	(7,001,985)	(5,999,320)
Depreciation and amortisation	23	(2,040,135)	(1,547,328)
Finance costs	24	(42,701)	(42,701)
Provision for bad debts		(1,099,055)	(178,769)
Repairs and maintenance		(229,634)	(769,484)
Contracted services	26	(9,134)	-
Community and grant expenditure		(8,890,909)	(17,561,102)
General Expenses	19	(14,717,085)	(11,650,859)
Total Expenditure		**(46,012,224)**	**(47,099,182)**
Surplus (deficit) for the year		**22,279,127**	**(2,544,941)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated Surplus	Total net assets
Opening balance as previously reported	20,002,773	20,002,773
Adjustments		
GRAP conversion	17,476,202	17,476,202
Balance at 01 July 2008 as restated	**37,478,975**	**37,478,975**
Changes in net assets		
Surplus for the year	(2,544,941)	(2,544,941)
Balance at 01 July 2009	**34,934,034**	**34,934,034**
Changes in net assets		
Surplus for the year	22,279,127	22,279,127
Grap conversion adjustments	160,277	160,277
Balance at 30 June 2010	**57,373,438**	**57,373,438**

Cash flow statement

Figures in Rand	Note(s)	2010	2009
Cash flows from operating activities			
Receipts			
Sale of goods and services		9,518,226	10,341,909
Grants		56,772,633	39,517,791
Interest income		373,021	1,050,717
		66,663,880	50,910,417
Payments			
Employee costs		(18,983,571)	(15,348,939)
Community grant expenditure		(8,890,909)	(17,561,107)
Consulting and professional fees		(6,146,066)	(3,649,388)
Other payments to suppliers		(6,529,749)	(9,665,767)
		(40,550,295)	(46,225,201)
Net cash flows from operating activities	27	**26,113,585**	**4,685,216**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(24,583,928)	(15,800,683)
Purchase of financial assets		-	(5,093,252)
Proceeds from investments		2,151,463	-
Net cash flows from investing activities		**(22,432,465)**	**(20,893,935)**
Cash flows from financing activities			
Finance lease payments		(104,413)	(126,407)
Other adjustments		(117,848)	17,104,334
Net cash flows from financing activities		**(222,261)**	**16,977,927**
Net movement in cash and cash equivalents		**3,458,859**	**769,208**
Cash and cash equivalents at the beginning of the year		(779,387)	(1,548,595)
Cash and cash equivalents at the end of the year	10	**2,679,472**	**(779,387)**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. The annual financial statements have been prepared in accordance with South African Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board in accordance with section 122(3) of the Municipal Finance Management Act, (Act No.56 of 2003). Accounting policies for material transactions,events or conditions not covered by the above GRAP standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such Statements issued by the Accounting Practices Board.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

The standards included in the GRAP reporting framework, as determined in Directive 5 as issued by the Accounting Standards Board are summarised as follows:

Standard of GRAP	
GRAP 1	Presentation of financial statements
GRAP 2	Cash flow statements
GRAP 3	Accounting policies, changes in accounting estimates and errors
GRAP 4	The effects of changes in foreign exchange rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated financial statements and accounting for controlled entities
GRAP 7	Investments in associates
GRAP 8	Interest in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economies
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events after the reporting date
GRAP 16	Investment Property
GAMAP 17	Property, plant and equipment
GAMAP 19	Provisions, contingent liabilities and contingent asset
GRAP 100	Non current Assets held for Sale and Discontinued Operations
GRAP 101	Agriculture
GRAP 102	Intangible Assets
IFRS 3 (AC 140)	Business Combinations
IFRS 4 (AC 141)	Insurance Contracts
IFRS 6 (AC 143)	Exploration for and Evaluation of Mineral Resources
IFRS 7 (AC 144)	Financial Instruments: Disclosures
IAS 12 (AC 102)	Income Taxes
IAS 19 (AC 116)	Employee Benefits
IAS 32 (AC 125)	Financial Instruments: Presentation
IAS 36 (AC 128)	Impairment of Assets
IAS 39 (AC 133)	Financial Instruments: Recognition and Measurement
IPSAS 20	Related Party Disclosure
IPSAS 21	Impairment of Non Cash Generating Assets
IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 14	The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IGRAP 1	Applying the Probability Test on Initial Recognition of Exchange Revenue

Accounting policies for material transactions, events or conditions not covered by the above GRAP reporting framework have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3 and the hierachy approved in Directive 5, as issued by the Accounting Standard Board.

Accounting Policies

These accounting policies are consistent with the previous period, except for the changes set out in the note in the relevant policy.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note - Provisions.

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Accounting Policies

1.2 Property, plant and equipment (continued)

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	
• Office Buildings	30
Infrastructure	
• Taxi Ranks	20
• Bus Terminals and Shelters	20
• Street Lights	25
Community	
• Library	30
• Recreational Centres	30
• Sports and related grounds	30
• Outdoor sports facilities	20
• Community Halls	30
• Public Conveniences	30
Other property, plant and equipment	
• Bins and Containers	5 - 10
• Buildings	30
• Computer Equipment	5
• Computer Software (part of computer)	5
• Emergency equipment	5 - 15
• Furniture and Fittings	3 - 10
• Motor Vehciles	5
• Office Equipment	5
• Other Assets	2-30

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 4. The transitional provision expires on 30 June 2012.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and

1.2 Property, plant and equipment (continued)

equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

1.3 Intangible assets

Intangible assets comprise computer software and anti-virus software and are initially recognised at cost.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Amortisation is provided for intangible assets on a straight line basis over the usefule life. The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	**Useful life**
Computer software, other	5 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.4 Financial instruments

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

1.5 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

1.6 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is assigned using the formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

1.7 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

1.7 Impairment of non-cash-generating assets (continued)

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.8 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Defined contribution plans

The Hlabisa Municipality and its employees contribute to the Natal Joint Municipal Pension Fund, KwaZulu-Natal Joint Municipal Provident Fund and the GEPD which provides retirement benefits to such employees. The retirement benefitbenefit plan is subject to the rules and regulations prescribed by the Local Government Superannuation Ordinance, 1973 (Ordinance No. 24 of 1973) and in accordance with the requirements of the Pension Fund Act, 1956. Current

1.8 Employee benefits (continued)

contributions are charged against operating income on the basis of current service costs. Full actuarial valuations are performed every three years.

Whilst employees are employed by the municipality, the municipality contributes to their pension funds and medical aids. On termination, resignation or retirement of employees the municipality no longer contributes on their behalf and thus there are no post employment benefits.

1.9 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised.

1.10 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

1.10 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

1.11 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. Revenue

1.11 Revenue from non-exchange transactions (continued)

from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.12 Investment income

Interest and rentals are recognised on a time proportion basis.

1.13 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.14 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.15 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.16 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

1.17 Irregular expenditure (continued)

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.18 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.19 Presentation of currency

These annual financial statements are presented in South African Rand.

1.20 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.21 Internal reserves

Government grant reserve

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/deficit to the Government Grants Reserve equal to the Government Grant recorded as revenue in the statement of financial performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grant Reserve to the accumulated surplus/deficit. The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/deficit.

The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus.

1.21 Internal reserves (continued)

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus/deficit.

Donations and public contributions reserve

When items of property, plant and equipment are financed from public contributions and donations, a transfer is made from the accumulated surplus/deficit to the Donations and Public Contributions Reserve equal to the donations and public contributions recorded as revenue in the statement of financial performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Donations and Public Contributions Reserve to the accumulated surplus/deficit. The purpose of this policy is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the future depreciation charges that will be incurred over the estimated useful life of the item of property, plant and equipment financed from donations and public contributions.

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Donations and Public Contributions Reserve relating to such item is transferred to the accumulated surplus/deficit.

1.22 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.23 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice. This represents a change in accounting fromwork from IMFO and to Generally Recognised Accounting Practice.

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2009 are as follows:

Statement of financial position

	2010	2009
Property, plant and equipment (cost)		
Previously stated	-	41,915,800
Adjustment	-	544,337
	-	**42,460,137**
Intangible Assets		
Adjustment	-	37,665
Property Plant and equipment (Accumulated Depreciation)		
Adjustment	-	(4,178,612)
Intangible Assets (Accumulated Armotisation)		
Adjustment	-	4,887
Loans redeemed and capital receipts		
Previously stated	-	(41,915,800)
Adjustment	-	41,915,800
	-	**-**
Government grant reserve		
Previously stated	-	21,434,215
Adjustment	-	(21,434,215)
	-	**-**
Donations and public contributions reserve		
Previously stated	-	170,720
Adjustment	-	(170,720)
	-	**-**
Capital Development Fund		
Previously stated	-	(1,599,155)
Adjustment	-	1,599,155
	-	**-**
Reserves and Trust funds		
Previously stated	-	(20,139,748)
Adjustment	-	20,139,748
	-	**-**
Unspent grants and receipts		
Adjustment	-	(9,873,217)
Finance lease liabilities		
Adjustment	-	(535,591)

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

2. Changes in accounting policy (continued)

Accumulated surplus

Previously stated- balance	-	(9,365,117)
- 08/09 Appropriations	-	(2,908,475)
Grap implementation adjustments	-	17,476,202
	-	**5,202,610**

Statement of financial performance

Finance costs

Adjustment	-	42,701

Depreciation and armotisation

Adjustment	-	1,547,328

Contributions to fixed assets

Previously stated	-	756,444
Adjustment	-	(756,444)
	-	**-**

Contribution to funds

Previously stated	-	14,052,039
Adjustment	-	(14,052,039)
	-	**-**

Government grants and subsidies

Previously stated	-	1,061,000
Adjustment	-	(1,061,000)
	-	**-**

Notes to the Annual Financial Statements

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

IFRS 7 (AC 144) Financial Instruments: Disclosures

IFRS 7 introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the municipality's financial instruments.

The effective date of the standard is for years beginning on or after 01 January 2007.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

May 2008 Annual Improvements to IFRS's: Amendments to IFRS 7 (AC 144) Financial Instruments: Disclosures

The amendment relates to changes in the Implementation Guidance of the Standard. 'Total interest income' was removed as a component of finance costs from paragraph IG13. This was to remove inconsistency with the requirement of IAS 1 (AC 101) Presentation of Financial Statements which precludes the offsetting of income and expenses.

The effective date of the amendment is for years beginning on or after 01 January 2009.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the operations of the municipality.

It is unlikely that the ammendment will have a material impact on the municipality's annual financial statements.

May 2008 Annual Improvements to IFRS's: Amendments to IAS 19 (AC 116) Employee Benefits

With regards to curtailments and negative past service costs clarification has been made that:
- When a plan amendment reduces benefits, the effect of the reduction for future service is a curtailment and the effect of any reduction for past service is a negative past service cost;
- Negative past service cost arises when a change in the benefits attributable to past service results in a reduction in the present value of the defined benefit obligation; and
- A curtailment may arise from a reduction in the extent to which future salary increases are linked to the benefits payable for past service.

The definition of 'return on plan assets' has also been amended to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the actuarial assumptions used to measure the defined benefit obligation.

The term "fall due" in the definition of "short term employee benefits" has been replaced with "due to be settled"

The effective date of the amendment is for years beginning on or after 01 January 2009.

The municipality does not envisage adoption of the policy until such time as it becomes appicable to the municipality's operations.

It is unlikely that the ammendment will have a material impact on the entity's annual financial statements.

May 2008 Annual Improvements to IFRS's: Amendments to IAS 36 (AC 128) Impairment of Assets

The amendment requires disclosures of estimates used to determine the recoverable amount of cash-generating units containing goodwill or intangible assets with indefinite useful lives. Specifically, the following disclosures are required when discounted cash flows are used to estimate fair value less costs to sell:
- The period over which management has projected cash flows;
- The growth rate used to extrapolate cash flow projections; and
- The discount rate(s) applied to the cash flow projections.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

The effective date of the amendment is for years beginning on or after 01 January 2009.

The municipality has not envisaged the adoptation of the ammendment untill such time that it becomes applicable the municipality's operations.

The impact of the amendment is not material.

GRAP 5: Borrowing Costs

This Standard allows entities, in the exceptionally rare cases, to expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. This applies when it is inappropriate to capitalise borrowing costs.

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirement of an entity directly to the nature of the expenditure to be funded i.e. capital or current. In such cases, an entity shall expense those borrowing costs related to a qualifying asset directly to the statement of financial performance.

The following Directive also need to be considered:

Directive 4 - Transitional provisions for medium and low capacity municipalities requires only prospective application of the Standard and only will apply to borrowing costs incurred on qualifying assets where the commencement date for capitalisation is on or after the effective date of the Standard.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

GRAP 9: Revenue from Exchange Transactions

The definition of revenue in terms of GRAP 9 incorporates the concept of service potential. Revenue is the gross inflow of economic benefits or service potential when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Entities may derive revenue from exchange or non-exchange transactions.

An exchange transaction is one in which the municipality receives resources or has liabilities extinguished, and directly gives approximately equal value to the other party in exchange.

Non-exchange revenue transaction is a transaction where an entity receives value from another entity without directly giving approximately equal value in exchange.

An entity recognises revenue when it is probable that economic benefits or service potential will flow to the municipality, and the municipality can measure the benefits reliably.

GRAP 9 clarifies that this Standard only applies to revenue from exchange transactions.

Other than terminology difference, no affect on initial adoption of Standard on GRAP 9.

The following Directives also needs to be considered:

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municiplity has adopted the standard for the first time in the 2010 annual financial statements.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

The impact of the standard is set out in note 2 Changes in Accounting Policy.

GRAP 12: Inventories

GRAP 12 includes the definition of current replacement costs as the cost the municipality would incur to acquire the asset on the reporting date. GRAP 12 also includes the principal of service potential associated with the item that will flow to the municipality as part of recognition criteria for inventories as well as the concept of goods purchased or produced for distribution at no charge or for a nominal consideration, which is specific to the public sector.

Initial measurement is required at cost (an exchange transaction) and where inventories are acquired at no cost or nominal consideration (non-exchange transaction), their cost shall be their fair value at acquisition date.

Subsequent measurement shall be at lower of cost and net realisable value except if inventories are held for:

- distribution at no charge or for a nominal charge, or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

If the above applies then subsequent measurement shall be at the lower of cost or current replacement cost.

The retail method of measurement of cost is excluded from GRAP 12.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard. However, entities are not required to measure inventories in accordance with the requirements of the Standard for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

GRAP 13: Leases

GRAP 13 incorporates additional guidance on the concept of substance and legal form of a transaction, to illustrate the difference between lease and other contracts and on operating lease incentives.

In certain circumstances, legislation may prohibit the entering into certain types of lease agreements. If the municipality has contravened these legislative requirements, the municipality is still required to apply the requirements of GRAP 13.

Other than the abovementioned requirements, there is no other impact on the initial adoption of GRAP13.

The following Directive also needs to be considered:

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment or the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that Standard expires.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

GRAP 14: Events after the reporting date

An event, which could be favourable or unfavourable, that occurs between the reporting date and the date the annual financial statements are authorised for issue.

GRAP 14 requires the date of authorisation for issue is the date on which the annual financial statements have received approval from management to be issued to the executive authority or municipal council.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

Two types of events can be identified:
- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

An entity shall adjust the amounts recognised in its annual financial statements to reflect adjusting events after the reporting date.

An entity shall not adjust the amounts recognised in its annual financial statements to reflect non-adjusting events after the reporting date.

The effective date of the standard is for years beginning on or after 01 July 2009.

The minucipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

GRAP 16: Investment Property

Investment property includes property held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of an entity's operations.

GRAP 16 states that the use of property to provide housing as a social service does not qualify as investment property even though rentals are earned.

At initial recognition, investment property is measured at cost including transaction costs. However, where an entity acquires investment property through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

After initial recognition, entities can carry investment property at either the fair value (fair value model) or cost less accumulated depreciation and accumulated impairment (cost model).

An entity is required to disclose the fair value of investment property if the cost model is used. When an entity carries investment properties at fair value, the fair value needs to be determined at every reporting date. Gains or losses arising from changes in fair value are included in surplus or deficit for the period in which they arise.

The following Directive also needs to be considered:

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard. However, entities are not required to measure investment properties in accordance with the requirements of the Standard for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is not material.

GRAP 17: Property, Plant and Equipment

GRAP 17 does not require or prohibit the recognition of heritage assets but if an entity recognises heritage assets the municipality needs to comply with GRAP 17 disclosure requirements.

Additional commentary has been included in to clarify the applicability of infrastructure assets to be recognised in terms of GRAP 17.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

Where an entity acquires an asset through a non-exchange transaction, i.e. for a nominal or no consideration, its cost is its fair value as at the date of acquisition.

The disclosure requirement for temporarily idle, fully depreciated property, plant and equipment and for property, plant and equipment that are retired from active use is required in GRAP 17 whereas IAS 16 only encourages this disclosure.

The following Directive also needs to be considered:

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard. However, entities that applied the transitional provisions in the Standard of GAMAP on Property, Plant and Equipment may continue to take advantage of those transitional provisions until they expire. Entities are also not required to measure classes of Property, Plant and Equipment in accordance with the requirements of the Standard for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

GRAP 19: Provisions, Contingent Liabilities and Contingent Assets

GRAP 19 exclude from its scope those provisions and contingent liabilities arising from social benefits for which it does not receive consideration that is approximately equal to the value of goods and services provided directly in return from the recipients of those benefits.

For the purpose of GRAP 19, social benefits refers to goods, services and other benefits provided in the pursuit of the social policy objective of a government. This Standard includes guidance on the accounting of these social benefits.

Outflow of resources embodying service potential also needs to be considered in when assessing if a present obligation that arises from past events exists or not.

The Standard includes accounting for obligations to make additional contributions to a fund. This is similar to the requirements of IFRIC5 (AC438).

It further includes the accounting for the changes in existing decommissioning, restoration and similar liabilities. This is similar to the requirements of IFRIC1 (AC434).

GRAP 19 give specific guidance regarding restructuring by way of transfers that will take place under a government directive and will not involve binding agreements. An obligation exists only when there is a binding transfer agreement.

Additional disclosure for each class of provision regarding reductions in the carrying amounts of provisions that result from payments or other outflows of economic benefits or service potential made during the reporting period and reductions in the carrying amounts of provisions resulting from remeasurement of the estimated future outflow of economic benefits or service potential, or from settlement of the provisions without cost to the municipality.

If an external valuation is use to measure a provision the information relating to the valuation can usefully be disclosed.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard. However, where items have not been recognised as a result of transitional provisions under the Standard on Property, Plant and Equipment, the recognition requirements of the Standard on Provisions, Contingent Liabilities and Contingent Assets would not apply to such items until the transitional provisions in that Standard expire.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

GRAP 23: Revenue from Non-exchange Transactions

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the municipality.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

GRAP 100: Non-current Assets Held for Sale and Discontinued Operations

GRAP 100 includes in its scope the reference to non-cash generating assets. It further includes definitions relevant to the understanding of the Standard e.g. “Non-cash-generating assets” are assets other than cash-generating assets and “value in use of a non-cash-generating asset” is the present value of the asset’s remaining service potential.

GRAP 100 excludes from the description of a discontinued operation reference to a controlled entity acquired exclusively with a view to resale.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires prospective application of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities requires prospective application of the Standard. However, the Standard would not apply to those items that have not been recognised as a result of the transitional provisions under the Standard of Property, Plant and Equipment until the transitional provision in that Standard expires.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires prospective application of the Standard. However, the Standard would not apply to those items that have not been recognised as a result of the transitional provisions under the Standards of GRAP on Inventories, Investment Property, Property, Plant and Equipment, Agriculture and Intangible Assets until the transitional provision in that Standard expires.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

GRAP 102: Intangible Assets

GRAP 102 excludes guidance on accounting for intangible assets acquired as part of an entity combination and in-process research and development costs acquired in an entity combination.

Recognition requirement includes the concept of the probable flow of service potential.

GRAP 102 distinguishes between impairment loss of cash generating and non-cash-generating assets.

Intangible assets acquired at no or for a nominal cost shall be measured on acquisition date at its fair value.

In GRAP 102 the identifiability criterion in the definition of an intangible asset has been expanded to include contractual

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)
rights arising from binding arrangements, and to exclude rights granted by statute.

Additional guidance included in GRAP 102 to explain that distinction should be made between assets associated with the item of property, plant and equipment and the intangible asset.

Guidance on web site costs has been included in GRAP 102 from SIC Interpretation 32 Intangible Assets – Web Site Costs.

Guidance on intangible assets that may be acquired in exchange for non-monetary assets, where the exchange transaction lacks commercial substance has not been included in GRAP 102 as guidance to be included in GRAP 23.

GRAP 102 does not state “gains shall not be classified as revenue” as GRAP term “income” has a broader meaning than the term “revenue”.

Directive 4 - Transitional provisions for medium and low capacity requires retrospective application of the Standard. Where entities have, on initial adoption of the Standard, accumulated and retained sufficient information about costs and the future economic benefits or service potential related to intangible assets that may have been expensed previously, those intangible assets should be recognised in accordance with the Standard. Entities are not required to measure intangible assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Intangible Assets.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is not material.

IPSAS 21: Impairment of Non Cash-Generating Assets

The method of measurement of value in use of a non-cash-generating asset under this Standard is different to that applied to a cash generating asset.

Asset should be measured by reference to the present value of the remaining service potential of the asset.

Determining value in use (present value of remaining service potential) of a non-cash-generating asset, may be the depreciated replacement cost approach, restoration cost approach and service units approach.

This Standard does not require entities to apply an impairment test to property, plant and equipment carried at revalued amounts.

This Standard does not include a decrease in market value significantly greater than would be expected as a result of the passage of time or normal use as a minimum indication of impairment. This indication is included as an additional indication that impairment may exist.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is not material.

IPSAS 20: Related Party Disclosure

IPSAS 20 specifically excludes any consideration provided to key management personnel solely as a reimbursement for expenditure incurred by those individuals for the benefit of the reporting entity.

The effective date of the standard is for years beginning on or after 01 July 2009.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is not material.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

3.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the munipality's accounting periods beginning on or after 01 July 2010 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 July 2011.

The municipality does not envisage the adoptation of the standard until sich time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2010.

The municipality does not envisage the adoptation of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 1: Interpretation of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue

An entity assesses the probability of each transaction on an individual basis when it occurs. Entities shall not assess the probability on an overall level based on the payment history of recipients of the service in general when the probability of revenue is assessed at initial recognition.

The full amount of revenue will be recognised at initial recognition. Assessing impairment is an event that takes place subsequently to initial recognition. Such impairment is an expense. Revenue is not reduced by this expense.

The effective date of the interpretation is for years beginning on or after 01 April 2010.

The municipality does not envisage the adoptation of the standard until such time as it becomes applicable to the operations of the municipality.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

4. Property, plant and equipment

	2010			2009		
	Cost / Valuation	**Accumulated depreciation**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation**	**Carrying value**
Land	281,900	-	281,900	281,900	-	281,900
Buildings	6,250,561	(1,311,194)	4,939,367	6,250,561	(1,099,893)	5,150,668
Infrastructure	824,508	(136,751)	687,757	757,768	(105,795)	651,973
Community Assets	14,946,521	(1,726,674)	13,219,847	14,748,146	(1,233,123)	13,515,023
Other property, plant and equipment	8,714,444	(4,577,981)	4,136,463	6,086,453	(3,281,186)	2,805,267
Capital work in progress	36,026,130	-	36,026,130	14,335,309	-	14,335,309
Total	**67,044,064**	**(7,752,600)**	**59,291,464**	**42,460,137**	**(5,719,997)**	**36,740,140**

Reconciliation of property, plant and equipment - 2010

	Opening balance	**Additions**	**Depreciation**	**Total**
Land	281,900	-	-	281,900
Buildings	5,150,667	-	(211,300)	4,939,367
Infrastructure	651,973	66,740	(30,956)	687,757
Community Assets	13,515,023	198,375	(493,552)	13,219,846
Other property plant and equipment	2,805,266	2,627,992	(1,296,795)	4,136,463
Capital work in progress	14,335,309	21,690,821	-	36,026,130
	36,740,138	**24,583,928**	**(2,032,603)**	**59,291,463**

Reconciliation of property, plant and equipment - 2009

	Opening balance	**Additions**	**Other changes, movements**	**Depreciation**	**Total**
Land	281,900	-	-	-	281,900
Buildings	5,349,701	12,000	-	(211,034)	5,150,667
Infrastructure	122,033	548,541	-	(18,601)	651,973
Community assets	17,832,513	-	(3,826,418)	(491,072)	13,515,023
Other property, plant and equipment	3,142,652	904,833	(421,541)	(820,678)	2,805,266
Capital work in progress	-	14,335,309	-	-	14,335,309
	26,728,799	**15,800,683**	**(4,247,959)**	**(1,541,385)**	**36,740,138**

Assets subject to finance lease (Net carrying amount)

	2010	2009
Other property, plant and equipment	251,281	367,683

Transitional provisions

Property, plant and equipment recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 2, certain property, plant and equipment with a carrying value of R 59,291,464 (2009: R 36,740,140) was recognised at provisional amounts. Carrying amounts of property, plant and equipment carried at provisional amounts are:

4. Property, plant and equipment (continued)

Due to initial adoption of GRAP 17

Land	281,900	281,900
Buildings	4,939,367	5,150,667
Infrastructure	12,285,439	651,973
Community Assets	13,219,846	13,515,023
Other property, plant and equipment	4,136,463	2,805,266
Work in progress	22,782,490	14,335,309

Steps taken to establish the values of property, plant and equipment recognised at provisional amounts due to the initial adoption of GRAP 17, is as follows:

The Municipality is in the process of appointing suitably qualified consultants to perform a complete valuation of all assets during the next financial year.

The date at which full compliance with GRAP 17 is expected, is 30 June 2012.

5. Intangible assets

	2010			2009		
	Cost / Valuation	**Accumulated amortisation**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation**	**Carrying value**
Computer software, other	37,665	(18,590)	19,075	37,665	(11,057)	26,608

Reconciliation of intangible assets - 2010

	Opening balance	**Amortisation**	**Total**
Computer software, other	26,608	(7,533)	19,075

Reconciliation of intangible assets - 2009

	Opening balance	**Amortisation**	**Total**
Computer software, other	32,552	(5,944)	26,608

6. Inventories

Consumable stores	19,217	-

Inventory is carried at the lower of cost or net realisable value.

7. Trade and other receivables

Staff debtors	1,107,144	653,774
Other debtors	13,206	13,206
	1,120,350	**666,980**

8. VAT receivable

Value Added Tax	1,545,855	860,582

Figures in Rand	2010	2009

9. Consumer debtors

Gross balances		
Rates	1,496,227	1,168,709
Refuse	1,327,433	143,198
	2,823,660	**1,311,907**
Less: Provision for debt impairment		
Rates	855,413	641,438
Refuse	979,379	94,298
	1,834,792	**735,736**
Net balance		
Rates	640,814	527,271
Refuse	348,054	48,900
	988,868	**576,171**
Rates		
Current (0 -30 days)	674,541	554,990
31 - 60 days	59,950	25,940
61 - 90 days	34,667	-
91 - 120 days	34,667	-
121 - 365 days	692,401	587,777
	1,496,226	**1,168,707**
Refuse		
Current (0 -30 days)	366,373	51,474
31 - 60 days	111,906	2,338
61 - 90 days	109,160	-
91 - 120 days	109,087	-
121 - 365 days	630,907	89,386
	1,327,433	**143,198**

Reconciliation of debt impairment provision		
Balance at beginning of the year	735,736	660,737
Contributions to provision	1,099,056	74,999
	1,834,792	**735,736**

Consumer debtors past due but not impaired

95% of Consumer debtors which are less than 60 days past due are not considered to be impaired. At 30 June 2010, R 988,869 (2009: R 576,141) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

Current	97,084	5,140
1 month past due	891,784	571,000

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1,005	1,005
Bank balances	2,678,467	145,369
Bank overdraft	-	(925,761)
	2,679,472	**(779,387)**
Current assets	2,679,472	146,374
Current liabilities	-	(925,761)
	2,679,472	**(779,387)**

The Municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2010	**30 June 2009**	**30 June 2008**	**30 June 2010**	**30 June 2009**	**30 June 2008**
ABSA Bank Limited Newcastle - Current Account - 4053709558	1,991,923	516,645	-	2,553,035	(924,774)	-
FNB Bank Limited Mtubatuba - Current Account - 62205724174	516,371	145,369	6,097	125,433	145,369	(1,548,595)
Total	**2,508,294**	**662,014**	**6,097**	**2,678,468**	**(779,405)**	**(1,548,595)**

11. Finance lease obligation

Minimum lease payments due		
- within one year	160,757	142,517
- in second to fifth year inclusive	231,672	392,429
	392,429	534,946
less: future finance charges	(41,198)	(79,304)
Present value of minimum lease payments	**351,231**	**455,642**
Present value of minimum lease payments due		
- within one year	133,636	104,412
- in second to fifth year inclusive	217,595	351,231
	351,231	**455,643**
Non-current liabilities	217,595	351,230
Current liabilities	133,636	104,412
	351,231	**455,642**

The average lease term was 5 years and the average effective borrowing rate was 12 (2009: 12%).

Interest rates are fixed at the contract date. All leases escalate at between 10% and 15% p.a and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets.

12. Unspent grants and receipts

Unspent conditional grants and receipts comprises of:

Conditional grants from other spheres of government		
Unspent conditionl grants	5,008,838	5,148,400

Figures in Rand	2010	2009

12. Unspent grants and receipts (continued)

Refer to Appendix D for more detail on conditional grants and receipts.

13. Trade and other payables

Trade payables	4,357,809	1,357,288
Other payables	350,937	433,595
Accrued leave pay	936,456	630,106
Accrued bonus	229,633	226,972
Deposits received	11,948	12,509
	5,886,783	**2,660,470**

14. Revenue

Property rates	466,652	102,157
Penalties imposed and collection charges	88,600	102,338
Service charges	1,051,973	13,636
Public contributions and donations	-	25,698
Fines	8,063,088	2,917,384
Licences and permits	301,283	673,954
Government grants & subsidies	56,633,071	39,252,797
	66,604,667	**43,087,964**

The amount included in revenue arising from other services are as follows:		
Service charges	1,051,973	13,636
Licences and permits	301,283	673,954
	1,353,256	**687,590**

The amount included in revenue arising from non-exchange transactions is as follows:		
Property rates	466,652	102,157
Penalties imposed and collection charges	88,600	102,338
Public contributions and donations	-	25,698
Fines	8,063,088	2,917,384
Government grants & subsidies	56,633,071	39,252,797
	65,251,411	**42,400,374**

15. Property rates

Rates received

Municipal	466,652	102,157
	466,652	102,157
Penalties imposed and collection charges	88,600	102,338
	555,252	**204,495**

16. Service charges

Refuse removal	1,051,973	13,636

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

17. Government grants and subsidies

Equitable share	31,051,345	24,180,304
Conditional and other grants	25,581,726	15,072,493
	56,633,071	**39,252,797**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Conditional and other grants

Balance unspent at beginning of year	5,148,400	9,584,617
Current-year receipts	25,721,288	19,508,710
Conditions met - transferred to revenue	(25,581,726)	(15,052,493)
	5,008,838	**5,148,400**

Conditions still to be met - remain liabilities (see note 12)

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 1 of 2010), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

18. Other revenue

Rental income - third party	165,893	229,486
Sundry income	1,147,770	186,074
	1,313,663	**415,560**

19. General expenses

Advertising	595,805	702,745
Auditors remuneration	1,546,716	383,383
Bank charges	28,328	149,482
Cleaning	(707)	46,613
Consulting and professional fees	6,146,066	3,649,388
Consumables	17,952	3,524
Entertainment	146,220	158,343
Fines and penalties	6,154	3,611
Insurance	214,683	116,251
Office machine rentals	98,503	152,679
Fuel and oil	974,188	800,862
Postage and courier	529,300	520,994
Printing and stationery	162,192	175,093
Royalties and license fees	4,891	8,303
Security (Guarding of municipal property)	591,690	632,998
Subscriptions and membership fees	15,992	22,982
Training	109,517	173,054
Refuse	174,274	-
Assets expensed	-	544
Electricity	348,952	102,078
Uniforms	6,141	41,245
Administrative expenses	426,089	997,319
General	660,650	989,099
Subsistence and Travel	1,624,288	1,565,545
Sports	289,201	254,724
	14,717,085	**11,650,859**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

20. Employee related costs

Basic	7,813,514	5,593,899
Bonus	393,520	311,436
Medical aid - company contributions	284,998	190,710
UIF	81,666	91,608
SDL	77,608	60,672
Post-employment benefits	515,680	316,703
Travel, motor car, accommodation, subsistence and other allowances	861,088	1,116,548
Overtime payments	536,734	548,217
Housing benefits and allowances	910,132	541,545
Telephone, cell allowances	187,747	172,908
Industrial council	2,246	28,017
Leave	316,653	377,356
	11,981,586	**9,349,619**

Remuneration of municipal manager

Annual Remuneration	361,981	323,373
Travel, car, acommodation, subsistence and other allowance	286,959	309,018
Contributions to UIF, Medical and Pension Funds	7,322	6,970
	656,262	**639,361**

Remuneration of chief finance officer

Annual Remuneration	345,961	309,955
Travel, car, acommodation, subsistence and other allowance	236,037	246,515
Contributions to UIF, Medical and Pension Funds	6,761	6,376
	588,759	**562,846**

Corporate and human resources (corporate services)

Annual Remuneration	341,572	304,826
Travel, car, acommodation, subsistence and other allowance	289,738	287,024
Contributions to UIF, Medical and Pension Funds	7,117	7,957
	638,427	**599,807**

Planning

Annual Remuneration	274,828	-
Travel, car, acommodation, subsistence and other allowance	297,510	-
Contributions to UIF, Medical and Pension Funds	6,725	-
	579,063	**-**

Community Services

Annual Remuneration	345,899	308,539
Travel, car, acommodation, subsistence and other allowance	208,395	197,469
Contributions to UIF, Medical and Pension Funds	6,498	6,086
	560,792	**512,094**

21. Remuneration of councillors

Mayor	295,975	276,576
Deputy Mayor	425,763	204,666
Speaker	215,464	391,385

Figures in Rand	2010	2009

21. Remuneration of councillors (continued)

Executive committee	861,844	895,016
Councillors	3,149,384	2,573,186
Concillors' pension and medical aid contributions	69,785	49,139
Councillors' allowances	1,983,770	1,645,353
	7,001,985	**5,999,320**

In-kind benefits

The Mayor, Executive Mayor, Speaker and Executive Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor has the use of separate Council owned vehicles for official duties.

The Mayor has two full-time bodyguards.

22. Investment revenue

Interest revenue		
Interest income	373,021	1,050,717

23. Depreciation and amortisation

Property, plant and equipment	2,032,602	1,541,385
Intangible assets	7,533	5,943
	2,040,135	**1,547,328**

24. Finance costs

Finance leases	42,701	42,701

25. Auditors' remuneration

Fees	1,546,716	383,383

26. Contracted services

Other Contractors	9,134	-

27. Cash generated from operations

Surplus (deficit)	22,279,127	(2,544,941)
Adjustments for:		
Depreciation and amortisation	2,040,135	1,547,328
Finance costs - Finance leases	42,701	42,701
Provision for doubtful debts	1,099,055	178,769
Changes in working capital:		
Inventories	(19,217)	-
Trade and other receivables	(453,370)	4,398,474
Consumer debtors	(1,511,752)	(32,358)
Trade and other payables	3,226,313	(40,756)
VAT	(685,273)	5,033,591
Unspent grants and receipts	(139,562)	-
Prior year adjustments	235,428	(3,897,592)
	26,113,585	**4,685,216**

Figures in Rand	2010	2009

28. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

29. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

	2010	2009
Opening balance	5,281	-
Current year subscription / fee	747,760	179,230
Amount paid - current year	(747,760)	(173,949)
Amount paid - previous years	(5,281)	-
	-	**5,281**

PAYE and UIF

	2010	2009
Opening balance	208,486	214,013
Current year payroll deductions	3,346,688	2,690,605
Amount paid - current year	(3,068,093)	(2,482,119)
Amount paid- previous year	(208,486)	(214,013)
	278,595	**208,486**

The balance represents PAYE and UIF deducted from the June 2010 payroll. These amounts were paid during July 2010.

Pension and Medical Aid Deductions

	2010	2009
Current year payroll deductions and council contributions	1,266,522	966,978
Amount paid - current year	(1,266,522)	(966,978)
	-	**-**

VAT

	2010	2009
VAT receivable	1,545,855	860,582

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2010:

30 June 2010	**Outstanding less than 90 days R**	**Outstanding more than 90 days R**	**Total R**
Councillor M.D Hlabisa	1,287	1,579	2,866

30 June 2009	**Outstanding less than 90 days R**	**Outstanding more than 90 days R**	**Total R**
Councillor M.D Hlabisa	1,009	1,579	2,588

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

29. Additional disclosure in terms of Municipal Finance Management Act (continued)
During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2010	Highest outstanding amount	Aging (in days)
Councillor M.D Hlabisa	1,579	180 + days

30 June 2009	Highest outstanding amount	Aging (in days)
Councillor M.D Hlabisa	1,579	180 + days

30. Commitments

Authorised capital expenditure

Already contracted and provided for	2010	2009
• Property, plant and equipment	15,988,567	-

Notes to the Annual Financial Statements

Figures in Rand

31. Statement of comparative and actual information

2010

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Virement (i.t.o.council approved)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance									
Property rates	526,869	526,869		526,869	555,252		(28,383)	105 %	105 %
Service charges	162,842	162,842		162,842	1,051,973		(889,131)	646 %	646 %
Investment revenue	310,125	310,125		310,125	373,021		(62,896)	120 %	120 %
Transfers recognised - operational	45,652,000	54,368,555		54,368,555	56,633,071		(2,264,516)	104 %	124 %
Other own revenue	8,898,061	12,052,870		12,052,870	9,678,034		2,374,836	80 %	109 %
Total revenue (excluding capital transfers and contributions)	**55,549,897**	**67,421,261**		**67,421,261**	**68,291,351**		**(870,090)**	**101 %**	**123 %**
Employee costs	(13,140,608)	(12,841,371)	-	(12,841,371)	(11,981,586)	-	(859,785)	93 %	91 %
Remuneration of councillors	(7,420,791)	(7,135,840)	-	(7,135,840)	(7,001,985)	-	(133,855)	98 %	94 %
Debt impairment	-	-		-	(1,099,055)	-	1,099,055		
Depreciation and asset impairment	(1,001,778)	(1,001,778)		(1,001,778)	(2,040,135)	-	1,038,357	204 %	204 %
Finance charges	-	-	-	-	(42,701)	-	42,701		
Transfers and grants	(4,025,000)	(4,790,000)	-	(4,790,000)	(8,890,909)	-	4,100,909	186 %	221 %
Other expenditure	(10,140,049)	(13,629,936)	-	(13,629,936)	(14,955,853)	-	1,325,917	110 %	147 %
Total expenditure	**(35,728,226)**	**(39,398,925)**	**-**	**(39,398,925)**	**(46,012,224)**	**-**	**6,613,299**	**117 %**	**129 %**
Surplus/(Deficit)	**19,821,671**	**28,022,336**		**28,022,336**	**22,279,127**		**5,743,209**	**80 %**	**112 %**

Notes to the Annual Financial Statements

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Virement (i.t.o.council approved)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	(2,767,000)	(4,167,000)		(4,167,000)	-		(4,167,000)	- %	- %
Contributions recognised - capital and contributed assets	(17,054,671)	(23,554,671)		(23,554,671)	-		(23,554,671)	- %	- %
Surplus (Deficit) after capital transfers and contributions	**-**	**300,665**		**300,665**	**22,279,127**		**(21,978,462)**	**7,410 %**	
Surplus/(Deficit) for the year	**-**	**300,665**		**300,665**	**22,279,127**		**(21,978,462)**	**7,410 %**	

Notes to the Annual Financial Statements

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Virement (i.t.o.council approved)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources									
Sources of capital funds									
Transfers recognised - capital	13,355,000	13,355,000		13,355,000	-		13,355,000	- %	- %
Internally generated funds	2,767,000	2,767,000		2,767,000	-		2,767,000	- %	- %
Total sources of capital funds	**16,122,000**	**16,122,000**		**16,122,000**	**-**		**16,122,000**	**- %**	**- %**
Cash flows									
Net cash from (used) operating	-	-		-	26,113,585		(26,113,585)		
Net cash from (used) investing	-	-		-	(22,432,465)		22,432,465		
Net cash from (used) financing	-	-		-	(222,261)		222,261		
Cash/cash equivalents at the year end	**-**	**-**		**-**	**3,458,859**		**(3,458,859)**		

Appendix A: Hlabisa Local Municipality: Analysis of property, plant and equipment as at 30 June 2010

Analysis of property, plant and equipment as at 30 June 2010

	Cost/ Revaluation			Accumulated depreciation			
	Opening Balance Rand	Additions Rand	Closing Balance Rand	Opening Balance Rand	Depreciation Rand	Closing Balance Rand	Carrying value Rand
Land and buildings							
Land (Separate for AFS purposes)	281,900	-	**281,900**	-	-	**-**	281,900
Buildings (Separate for AFS purposes)	6,250,561	-	**6,250,561**	(1,099,893)	(211,300)	**(1,311,193)**	4,939,368
	6,532,461	**-**	**6,532,461**	**(1,099,893)**	**(211,300)**	**(1,311,193)**	**5,221,268**
Infrastructure							
Street lighting	439,092	-	**439,092**	(7,318)	(17,564)	**(24,882)**	414,210
Sewerage purification	-	66,740	**66,740**	-	(742)	**(742)**	65,998
Transportation (Airports, Car Parks, Bus Terminals and Taxi Ranks)	318,676	-	**318,676**	(98,477)	(12,651)	**(111,128)**	207,548
	757,768	**66,740**	**824,508**	**(105,795)**	**(30,957)**	**(137,083)**	**687,425**
Community Assets							
Sportsfields and stadium	68,774	-	**68,774**	(9,170)	(2,292)	**(11,462)**	57,312
Community halls	12,068,424	-	**12,068,424**	(402,281)	(402,281)	**(804,562)**	11,263,862
Libraries	2,528,500	-	**2,528,500**	(800,692)	(84,283)	**(884,975)**	1,643,525
Other	82,448	198,375	**280,823**	(20,981)	(4,695)	**(25,676)**	255,147
	14,748,146	**198,375**	**14,946,521**	**(1,233,124)**	**(493,551)**	**(1,726,675)**	**13,219,846**

Appendix A: Hlabisa Local Municipality: Analysis of property, plant and equipment as at 30 June 2010

Analysis of property, plant and equipment as at 30 June 2010

	Cost/ Revaluation			Accumulated depreciation			
	Opening Balance Rand	Additions Rand	Closing Balance Rand	Opening Balance Rand	Depreciation Rand	Closing Balance Rand	Carrying value Rand
Other assets							
General vehicles	944,233	1,408,718	**2,352,951**	(624,429)	(508,816)	**(1,133,245)**	1,219,706
Computer Equipment	1,389,710	133,624	**1,523,334**	(734,378)	(219,046)	**(953,424)**	569,910
Computer Software (part of computer equipment)	116,443	-	**116,443**	(61,354)	(23,289)	**(84,643)**	31,800
Furniture & Fittings	1,613,893	473,219	**2,087,112**	(808,386)	(200,749)	**(1,009,135)**	1,077,977
Office Equipment	410,755	-	**410,755**	(281,431)	(69,674)	**(351,105)**	59,650
Office Equipment - Leased	582,000	-	**582,000**	(214,317)	(116,400)	**(330,717)**	251,283
Bins and Containers	36,066	-	**36,066**	(23,033)	(1,796)	**(24,829)**	11,237
Work in progress	14,335,309	21,690,820	**36,026,129**	-	-	**-**	36,026,129
Other	993,353	612,431	**1,605,784**	(533,859)	(157,025)	**(690,884)**	914,900
	20,421,762	**24,318,812**	**44,740,574**	**(3,281,187)**	**(1,296,795)**	**(4,577,982)**	**40,162,592**
Total property plant and equipment							
Land and buildings	6,532,461	-	**6,532,461**	(1,099,893)	(211,300)	**(1,311,193)**	5,221,268
Infrastructure	757,768	66,740	**824,508**	(105,795)	(30,957)	**(137,083)**	687,425
Community Assets	14,748,146	198,375	**14,946,521**	(1,233,124)	(493,551)	**(1,726,675)**	13,219,846
Other assets	20,421,762	24,318,812	**44,740,574**	(3,281,187)	(1,296,795)	**(4,577,982)**	40,162,592
	42,460,137	**24,583,927**	**67,044,064**	**(5,719,999)**	**(2,032,603)**	**(7,752,933)**	**59,291,131**
Intangible assets							
Computers - software & programming	37,655	-	**37,655**	(11,057)	(7,533)	**(18,590)**	19,065
	37,655	**-**	**37,655**	**(11,057)**	**(7,533)**	**(18,590)**	**19,065**
Total	**42,497,792**	**24,583,927**	**67,081,719**	**(5,731,056)**	**(2,040,136)**	**(7,771,523)**	**59,310,196**

Supplementary Information

Appendix B: Segmental analysis of property, plant and equipment

Appendix B: Segmental analysis of property, plant and equipment as at 30 June 2010

Segmental analysis of property, plant and equipment as at 30 June 2010

		Cost/Revaluation				Accumulated depreciation			
		Opening Balance Rand	**Additions Rand**	**Work in Progress Rand**	**Closing Balance Rand**	**Opening Balance Rand**	**Depreciation Rand**	**Closing Balance Rand**	**Carrying value Rand**
	Municipality								
	Executive & Council	11,011,636	2,050,148	-	**13,061,784**	(2,826,391)	(886,892)	**(3,713,283)**	9,348,501
2.*	Finance & Admin/Finance	2,262,059	241,299	-	**2,503,358**	(1,191,408)	(360,587)	**(1,551,995)**	951,363
3.*	Planning and Development/Economic Development/Plan	513,877	127,782	-	**641,659**	(119,669)	(77,544)	**(197,213)**	444,446
5.*	Comm. & Social/Libraries and archives	27,725,191	473,877	21,690,821	**49,889,889**	(1,225,088)	(632,109)	**(1,857,197)**	48,032,692
7.*	Public Safety	935,754	-	-	**935,754**	(346,321)	(73,147)	**(419,468)**	516,286
10.*	Trading services - Waste Management	49,283	-	-	**49,283**	(22,177)	(9,856)	**(32,033)**	17,250
		42,497,800	**2,893,106**	**21,690,821**	**67,081,727**	**(5,731,054)**	**(2,040,135)**	**(7,771,189)**	**59,310,538**
	Total								
	Municipality	42,497,800	2,893,106	21,690,821	**67,081,727**	(5,731,054)	(2,040,135)	**(7,771,189)**	59,310,538
		42,497,800	**2,893,106**	**21,690,821**	**67,081,727**	**(5,731,054)**	**(2,040,135)**	**(7,771,189)**	**59,310,538**

Supplementary Information

Appendix C: Segmental Statement of Financial Performance

Appendix C
June 2010

Segmental Statement of Financial Performance for the year ended

Prior Year				Current Year		
Actual Income Rand	**Actual Expenditure Rand**	**Surplus /(Deficit) Rand**		**Actual Income Rand**	**Actual Expenditure Rand**	**Surplus /(Deficit) Rand**
			Municipality			
37,622,530	27,616,919	10,005,611	Executive & Council/Mayor and Council	54,935,705	17,596,326	37,339,379
1,935,230	7,443,312	(5,508,082)	Finance & Admin/Finance	3,487,506	12,682,022	(9,194,516)
410,000	2,119,416	(1,709,416)	Planning and Development/Economic Development/Plan	407,296	3,363,847	(2,956,551)
6,351	5,448,202	(5,441,851)	Comm. & Social/Libraries and archives	44,500	4,025,024	(3,980,524)
3,591,337	2,506,189	1,085,148	Public Safety/Police	8,364,371	7,164,696	1,199,675
975,157	1,229,724	(254,567)	Sport and Recreation	-	289,201	(289,201)
13,636	735,420	(721,784)	Waste Water Management/Sewerage	1,051,973	891,108	160,865
44,554,241	**47,099,182**	**(2,544,941)**		**68,291,351**	**46,012,224**	**22,279,127**
			Municipal Owned Entities			
			Other charges			
44,554,241	47,099,182	(2,544,941)	Municipality	68,291,351	46,012,224	22,279,127
44,554,241	**47,099,182**	**(2,544,941)**	**Total**	**68,291,351**	**46,012,224**	**22,279,127**

Appendix D: Hlabisa Local Municipality
Disclosure of grants and subsidies for the financial year ended 30 June 2010

GRANT	BALANCE UNSPENT 1/07/09	CURRENT YR RECEIPTS	CONDITIONS MET -TRANSFERRED TO REVENUE			Conditions still to be met -Remain liabilities
			Operational exp	Capital	Total Expenditure	
DOH-DISASTER MAN. GRANT	**-1,267,785.05**	0.00	0.00	0.00	0.00	**-1,267,785.05**
DOH COMMUNITY GARDENS	**-202,297.64**		0.00	0.00	0.00	**-202,297.64**
DOH SOCIO ECONOMIC SURVE	**-4,676.23**	0.00	0.00	0.00	0.00	**-4,676.23**
HOUSING GRANT	**-253,758.70**	0.00	0.00	0.00	0.00	**-253,758.70**
LED PROJECTS - INTERNAL	**-33,605.77**	0.00	0.00	0.00	0.00	**-33,605.77**
PMS GRANT - DC27	**-90,000.00**	0.00	288,043.86	0.00	288,043.86	**198,043.86**
MDPC GRANT	**-65,300.73**	0.00	0.00	0.00	0.00	**-65,300.73**
IDP GRANT	**-15,332.46**	0.00	5,410.29	0.00	5,410.29	**-9,922.17**
IDP GRANT - DC 27	**-20,896.39**	0.00	0.00	59,068.40	59,068.40	**38,172.01**
DTLGA-FMG GRANT	**-1,518.30**	0.00	0.00	0.00	0.00	**-1,518.30**
PMS GRANT	**-62,000.00**	0.00	0.00	0.00	0.00	**-62,000.00**
COMMUNITY INITIATIVE GRANT	**-50,000.00**	0.00	7,547.70	0.00	7,547.70	**-42,452.30**
LIBRARY GRANT	**-598,856.56**	-210,155.30	21,188.86	0.00	21,188.86	**-787,823.00**
MUNICIPAL DEV. PLAN.CAP	**-12,398.80**	0.00	0.00	0.00	0.00	**-12,398.80**
INTERGOV. DEPART. MONIT.	**-4,677.00**	0.00	0.00	0.00	0.00	**-4,677.00**
PROPERTY RATES GRANT	**-33,125.00**	0.00	0.00	0.00	0.00	**-33,125.00**
PROJECT CONSOLIDATE	**-240,446.15**	0.00	0.00	0.00	0.00	**-240,446.15**
ANTI-CORRUPTION STRATEGY	**-74,500.00**	0.00	0.00	0.00	0.00	**-74,500.00**
FMG GRANT	**0.00**	-1,500,000.00	2,142,181.17	45,175.00	2,187,356.17	**687,356.17**
ZAMIMPILO TOURISM CENTRE	**0.00**	0.00	48,453.77	0.00	48,453.77	**48,453.77**
DC27-VOTER REGISTRATION CAMPAIGN GRANT	**-2,000.00**	0.00	0.00	0.00	0.00	**-2,000.00**
PROJECT CONS. - WATER RETICULATION	**-1,132,894.95**	0.00	0.00	1,586,888.99	1,586,888.99	**453,994.04**
PROJECT CONS.-WASTE DUMP SITE	**0.00**	0.00	174,273.68	0.00	174,273.68	**174,273.68**
DTLGA-COMMUNITY DEV. WORKERS	**-9,011.02**	0.00	0.00	0.00	0.00	**-9,011.02**
DPLG-MSIG	**0.00**	-735,000.00	569,880.27	0.00	569,880.27	**-165,119.73**
MUNICIPAL INFRASTRUCTURE INVESTMENT PROGRAME-MIIP	**-185,318.00**	0.00	104,983.11	0.00	104,983.11	**-80,334.89**
PUBLIC PARTICIPATION	**-36,857.75**	0.00	0.00	0.00	0.00	**-36,857.75**
INTERNAL CONTROL UNITS	**-150,000.00**	0.00	0.00	0.00	0.00	**-150,000.00**
MUNICIPAL INFRASTRUCTURE GRANT - MIG	**-64,604.66**	-16,186,669.00	460,932.70	19,987,979.74	20,448,912.44	**4,197,638.78**
DTLGA - INFORMAL TRADING FACILITIES	**0.00**	0.00	200,000.00	0.00	200,000.00	**200,000.00**
SDL GRANT	**0.00**	-89,464.09				**-89,464.09**
CORRIDOR DEVELOPMENT GRANT	**0.00**	-7,000,000.00	0.00	0.00	0.00	**-7,000,000.00**
GIS - GRANT	**-8,619.30**	0.00	0.00	0.00	0.00	**-8,619.30**
COMPUTER GRANT	**-54.04**	0.00	0.00	0.00	0.00	**-54.04**

Appendix D: Hlabisa Local Municipality
Disclosure of grants and subsidies for the financial year ended 30 June 2010

GRANT	BALANCE UNSPENT 1/07/09	CURRENT YR RECEIPTS	CONDITIONS MET -TRANSFERRED TO REVENUE			Conditions still to be met -Remain liabilities
			Operational exp	Capital	Total Expenditure	
LUMS GRANT	**-114,688.03**	0.00	0.00	0.00	0.00	**-114,688.03**
MPEMBENI HEALTH CENTRE	**-4,171.75**	0.00	0.00	0.00	0.00	**-4,171.75**
SHIKISHELA CRECHE	**-8,346.25**	0.00	0.00	0.00	0.00	**-8,346.25**
MPEMBENI GAME LODGE	**-54,203.00**	0.00	0.00	0.00	0.00	**-54,203.00**
SINAMUVA CULTURAL VILLAG E AND TOURS	**-346,456.14**	0.00	158,842.11	0.00	158,842.11	**-187,614.03**
	-5,148,399.67	-25,721,288.39	**4,181,737.52**	**21,679,112.13**	**25,860,849.65**	**-5,008,838.41**